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# 2018 Corporate Governance Statement

## Stokes Limited's approach to corporate governance

Stokes Limited (SKS, the Group, or the Company) has developed a corporate governance framework ("CGF") including supporting policies and practices consistent with the **Corporate Governance Principles and Recommendations 3rd Edition** ("ASX Governance Principles").

The Board reviews and updates the corporate governance framework as required.

Our main corporate governance and other policies are available on our website ([www.stokes.com.au](http://www.stokes.com.au)).

Details of our compliance with the individual principles are set out below.

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

**A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.**

### Recommendation 1.1: The Board

- a. *the respective roles and responsibilities of its board and management; and*
- b. *those matters expressly reserved to the board and those delegated to management.*

The Board is responsible for protecting the interests of shareholders and for the performance, operation and affairs of SKS. The Board's principal role is to provide leadership and to govern, rather than manage, SKS. The Board represents and serves the interests of the shareholders, collectively overseeing and appraising strategies, policies and the performance of SKS.

The Board is responsible for oversight of SKS, including:

- driving and monitoring the strategic direction of SKS and approving Group strategies;
- approving significant corporate initiatives including major acquisitions, divestments and capital management transactions;
- approving and monitoring operating budgets and major capital expenditures
- setting SKS's risk appetite and approving the risk management strategy;
- selecting appropriate Board candidates and recommending to SKS shareholders the election, re-election or removal of Directors;
- appointing the Chairman, and evaluating Board processes, the performance of the Board as a whole, and the contributions of individual Directors;
- overseeing the integrity of SKS's accounting and reporting systems, including the external audit process;
- reviewing and approving SKS's remuneration policies and framework;
- monitoring management's performance and the exercise of the Board's delegated authority;
- appointing and when necessary replacing the Chief Executive Officer ("CEO");
- appointing and when necessary replacing the Chief Financial Officer ("CFO");
- oversight, through the Chair, of Company Secretary performance regarding functioning of the Board;
- ratifying the appointment and removal of senior executives; and
- setting standards for and ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance, work health & safety, social and environmental responsibility) are adhered to at all times.

### The CEO

The Board has delegated to the CEO responsibility for the overall management and profit performance of SKS, including all day-to-day operations and administration. The CEO is responsible for:

- the efficient and effective operation of SKS;
- developing corporate strategy, performance objectives, business plans and budgets for review and approval by the Board;
- developing appropriate policies and procedures for the management and control of the business;
- the implementation of corporate strategy and policy initiatives;
- providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities;
- the day to day management of the Company's affairs; and
- ensuring all material matters affecting SKS are brought to the Board's attention.

## Recommendation 1.2: Appointment of Directors

A listed entity should:

- Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and
- Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

The Board assesses candidates for appointment to the Board, either when a vacancy arises or if it considers that the Board would benefit from the services of a new Director. Particular attention is given to the mix of skills, experience, and expertise of existing Directors and how the candidate's competencies will complement and balance these qualities. The Company undertakes appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director.

SKS provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

Any Director appointed during the year to fill a casual vacancy or as an addition to the existing Directors must stand for election at the next annual general meeting (AGM).

## Recommendation 1.3: Appointment Terms

A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

The Company has written agreements with each of its senior executives. There is an employment contract with Mr Peter Jinks – Chairman and Chief Executive Officer. There are **no** written agreements with the other directors.

## Recommendation 1.4: Company Secretary

The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Company Secretary is responsible to the Board for:

- advising the Board on governance matters;
- monitoring that Board policy and procedures are followed;
- coordinating the timely completion and dispatch of Board papers;
- ensuring that the business at Board meetings is accurately captured in the minutes;
- helping to organise and facilitate the induction of directors;
- communications with regulatory bodies; and
- ASX, statutory and other filings.

All Directors have unfettered access to the Company Secretary and the appointment and removal of the Company Secretary is decided by the Board.

## Recommendation 1.5: Diversity, Inclusion and Belonging

A listed entity should:

- have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;
- disclose that policy or a summary of it;

- disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:

- the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or
- if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.

A copy of the company's Diversity Policy is available on our website.

SKS is committed to providing an inclusive workplace and recognises the value that individuals with diverse skills, values, backgrounds and experiences will bring to the Company. At the core of the Company's diversity policy is a commitment to equality and respect. Diversity is recognising and valuing the unique contribution people can make because of their individual background and different skills, experiences and perspectives. People differ not just on the basis of race and gender, but also other dimensions such as lifestyle, education, physical ability, age and family responsibility.

SKS is an equal opportunity employer and aims to recruit staff at all levels from as diverse a pool of qualified candidates as reasonably possible based on their skills, qualifications and experience.

The Group is committed to increase the level of diversity within the organization, however operates within an electrical and communications market segment which historically attracts a limited pool of gender diverse candidates. Therefore, setting specific measurable objectives in regards to gender diversity with timeframes is considered not achievable. Instead, the Board does aim to maintain or increase the level of female representation within the organisation in the future.

Gender diversity statistics for the consolidated group are as follows:

Employee Numbers	2018		
	(as at 20 April 2018)		
	M	F	%
Non-executive directors	2	0	0
CEO and direct reports	7	0	0
Other employees	45	10	18
Total employees <sup>2</sup>	54	10	16

### Notes:

- Total employees equivalent to 63 FTE's
- Part time employees accounted for 3% of the workforce
- 100% of part time employees are female.

## Recommendation 1.6: Measuring the Performance of Directors

A listed entity should:

- a. have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and
- b. disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The full board attends to the process for periodical evaluation of the performance of the board in an **informal** manner.

The Board will look at a more formalised approach as the company operations and size matures.

## Recommendation 1.7: Performance Assessment of CEO and Senior Executive Officers

A listed entity should:

- a. have and disclose a process for periodically evaluating the performance of its senior executives; and
- b. disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process

The performance of senior executive officers was evaluated in the prior year (2017) in accordance with the process described below.

The Board is specifically responsible for reviewing the ongoing performance of the Chief Executive Officer ("CEO") and ensuring there is an appropriate process to review the performance of other senior executive officers (SEO's).

At this stage, the employment contracts for senior executive officers do not contain any variable components in relation to bonus payments and options. The Board is contemplating introducing such variable components as the size of the group increases and if and when it implements these revised remuneration structures the Board will become accountable for setting and approving performance objectives of SEO's in relation to bonus payments and options.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

**A listed entity should have a board of an appropriate size, composition, skills commitment to enable it to discharge its duties effectively.**

### Recommendation 2.1: Nomination Committee

The board of a listed entity should:

- (a) have a nomination committee which:
  1. has at least three members, a majority of whom are independent directors; and
  2. is chaired by an independent director,and disclose:
  1. the charter of the committee;
  2. the members of the committee; and
  3. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

SKS does not have a separate Nomination Committee. This represents a departure from Recommendation 2.1. The functions of this committee are addressed by the full Board which is considered appropriate for a company of our size.

### Recommendation 2.2: Board Skills

*A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.*

The Board currently comprises two independent Non-Executive Directors, and two Executive Directors, Peter Jinks, SKS's Managing Director and CEO, and Greg Jinks.

The Board's policy is to help ensure that the Board comprises Directors who collectively have the relevant industry experience, knowledge, and skills required for SKS. This takes into account SKS's current size, market position, complexity and strategic focus.

The SKS Board currently includes the following skills:

- Electrical and Lighting industry experience
- Sales and marketing experience
- Small cap company directorships
- Capital markets experience
- Business development experience and contacts

A formalised Board skills matrix does not exist. When a Board vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the service of a new director with particular skills, the full board will recommend a candidate or panel of candidates with the appropriate expertise being sought.

## Recommendation 2.3: Board of Directors

*A listed entity should disclose:*

- (a) *the names of the directors considered by the board to be independent directors;*
- (b) *if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and*
- (c) *the length of service of each director.*

Information on director's interest is disclosed in the 2017 annual report. The Board is of the opinion that such interest does not compromise the independence of the director.

The names of Directors in office at the date of this statement, their year of appointment, experience, expertise and biographical details are set out in the Directors' Report within the 2017 annual report.

Directors have the right to seek independent professional advice at the Company's expense after prior consultation with the Chairman.

### Potential conflicts of interests

The Board has adopted a policy on managing conflicts of interest and duties. Directors are required to disclose all their interests on an ongoing basis and, in particular, are required to disclose interests that could conflict with SKS's interests. Where the Board is required to approve a transaction or arrangement with an organisation in which a Director has an interest, the relevant Director must disclose his or her interest and abstain from voting, unless the Board determines otherwise.

## Recommendation 2.4: Director Independence

*A majority of the board of a listed entity should be independent directors*

The SKS Board currently consists of four directors, two of which are non-executive directors. The majority is not deemed to be Independent Directors which represents a departure from Recommendation 2.4.

However, this composition is considered appropriate for the current size, stage of development and requirements of the group and is monitored on an ongoing basis.

## Recommendation 2.5: The Chairman

*The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.*

The chairman of the SKS Board is also the managing director and CEO being Mr Peter Jinks. Mr Peter Jinks does not meet all the independence criteria set out in the Recommendations, as he is a substantial shareholder of the Company. This represents a departure from recommendation 2.5. However, Mr Peter Jinks brings considerable experience within the electrical and communications sector and is considered the best individual to hold these roles at this point in time, and the Board considers that his substantial shareholding does not impact on his ability to exercise independent judgement.

## Recommendation 2.6: Director Induction, Education and Training

*A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.*

The Company routinely updates directors with market developments (including regulatory, accounting and legal updates) that may be applicable to their roles.

Directors are able to seek independent professional advice or undertake professional development at the company's expense.

## PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

**A listed entity should act ethically and responsibly.**

SKS takes ethical and responsible decision making seriously. We expect our employees and Directors to do the same, as they are all accountable for ensuring that their behaviours, decisions and choices are:

- in accordance with all laws and regulations of Australia; and
- consistent with the Group's ethical principles as set out in SKS's Code of Conduct (Code) and the policies and standards that relate directly to their duties.

### Recommendation 3.1: Code of Conduct

*A listed entity should:*

- (a) *have a code of conduct for its directors, senior executives and employees; and*
- (b) *disclose that code or a summary of it.*

A copy of the SKS Code of Conduct is available on our website.

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### Recommendation 4.1: Audit Committee

*A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting*

*The board of a listed entity should:*

- (a) *have an audit committee which:*
  - 1. *has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and*
  - 2. *is chaired by an independent director, who is not the chair of the board,*

**and disclose:**

- 1. *the charter of the committee,*
- 2. *the relevant qualifications and experience of the members of the committee; and*
- 3. *in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*

- (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

SKS does **not** have a separate Audit Committee. This is a departure from Recommendation 4.1. Due to the size of the Board and the Company, the Board has assumed the role of the Audit Committee.

#### Recommendation 4.2: Assurances

*The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.*

The SKS COO and CFO provide a declaration to the Board in respect to financial statements submitted to the Board for approval. The COO is considered more appropriate given their degree of expertise and involvement in the operational activities and accounting processes.

#### Recommendation 4.3: External Auditor

*A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.*

The external Auditor attends the AGM and is available to answer shareholders' questions on the conduct of the audit, the preparation and content of the Auditor's Report, the accounting policies adopted and auditor independence.

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

**A listed entity should make timely and balanced disclosures of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.**

#### Recommendation 5.1: Continuous Disclosure

*A listed entity should:*

- (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and
- (b) disclose that policy or a summary of it.

We have a Continuous Disclosure Policy to reinforce our commitment to continuous disclosure, as well as our employees' responsibilities regarding inside information.

Our Continuous Disclosure Policy includes a protocol outlining how information is released to the public and provides examples of what could constitute inside information.

We are committed to timely, factual and balanced disclosure to ensure investors are informed of all material developments for the Group. Announcements are prepared to ensure they do not omit material information and are expressed in a clear and objective manner to allow investors to assess the impact of information when they make investment decisions.

All material, price sensitive announcements are subject to a sign-off process at senior levels within SKS before they are released to the ASX.

## PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

**A listed entity should respect the rights of security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.**

#### Recommendation 6.1: Information and Governance

*A listed entity should provide information about itself and its governance to investors via its website.*

The SKS website contains information about the Company and its governance.

#### Recommendation 6.2: Investor Relations Program

*A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.*

In addition to mandated full year and half year reporting and continuous disclosure obligations, SKS responds to letters, emails, telephone calls and requests for meetings from investors regardless of the size of their shareholding and encourages questions at and in advance of the annual general meeting and any other investor updates.

Shareholders and investors can raise any issues or concerns at any time by contacting the Company by email at Peter.Jinks@stokes.com.au. Alternatively, shareholders and investors can write to the Chairman or Company Secretary at Stokes Limited, 53 Stanley Street, West Melbourne, Vic 3003, Australia.

#### Recommendation 6.3: Participation at General Meetings

*A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.*

SKS holds its shareholder meetings at a CBD location to provide ease of access to the maximum number of shareholders both institutional and retail.

Shareholders are encouraged to submit questions to the Company in advance of the meeting and all such questions received are included in the meeting presentation (together with a response) which is released to the market.

#### Recommendation 6.4: Electronic Communications

*A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.*

SKS encourages shareholders to utilise the electronic communication alternatives available from its share registry.

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

### Recommendation 7.1: Risk Committee

The board of a listed entity should:

- (a) have a committee or committees to oversee risk, each of which:
  - 1. has at least three members, a majority of whom are independent; and
  - 2. is chaired by an independent director,

and disclose:

- 1. the charter of the committee;
  - 2. the members of the committee; and
  - 3. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.

The full Board is responsible for oversight of material business risks and the Company's risk management framework.

### Recommendation 7.2: Review Risk Management Framework

The board or a committee of the board should:

- (a) Review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and
- (b) Disclose in relation to each reporting period, whether such a review has taken place.

The full Board reviews the Company's risk management framework and risk management statement annually, or more frequently if the Board considers it necessary.

### Recommendation 7.3: Internal Audit Function

A listed entity should disclose:

- (a) If it has an internal audit function, how the function is structured and what role it performs; or
- (b) If it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

As a small enterprise SKS does **not** have an internal audit function. The Board, working with management, has responsibility for evaluating and continually improving the effectiveness of the Company's risk management and internal control processes.

### Recommendation 7.4: Economic, Environmental and Social Sustainability Risk

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and if it does, how it manages or intends to manage those risks.

The Group does not have any material exposure to economic, environmental and social sustainability risks.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

A listed entity should pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders.

### Recommendation 8.1: People and Remuneration Committee

The board of a listed entity should:

- (a) have a remuneration committee which:
  - 1. has at least three members, a majority of which are independent directors; and
  - 2. is chaired by an independent director,

and disclose:

- 1. the charter of the committee;
  - 2. the members of the committee; and
  - 3. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

SKS does **not** have a separate Remuneration and Nomination Committee. This represents a departure from Recommendation 8.1. The functions of this committee are addressed by the full Board which is considered appropriate for a company of our size.

### Recommendation 8.2: Group Remuneration Policy

A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

As non-executive directors assess individual and Company performance, their remuneration does not have any variable incentive component.

The cash component of senior executive remuneration at this stage includes only a fixed component. As the company matures it will assesses introducing a variable component being dependent upon performance measures that are derived from annual objectives in the Company's business plan.

Remuneration levels are set by the company in accordance with industry standards to attract suitable qualified and experienced Directors and senior executives.

### Recommendation 8.3: Equity Based Remuneration

A listed entity which has an equity-based remuneration scheme should:

- (a) Have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
- (b) Disclose that policy or a summary of it.

Directors, senior executive officers and employees are not permitted to trade in derivatives of our securities.